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UNCLAS CAIRO 003445

SIPDIS

SENSITIVE

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SUBJECT: IT'S THE REAL THING: U.S. SOFT DRINK COMPANIES
PLEASED WITH NEW TAX RATE

REF: CAIRO 3146

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1. (SBU) Post contacted Tarek Kabil, Chairman and CEO of Pepsi Egypt, and Lobna El Dessouky, Chief Financial Officer for Coca-Cola Bottling Company of Egypt, to confirm implementation of the recently lowered tax rate on locally produced soft drinks (reftel). Kabil said that Pepsi had been pleased with the amendment to the tax law, but -- along with Coca-Cola -- had some concerns that the language of the amendment might be open to differing interpretations. To ensure that the GOE and the soft drink producers were in agreement on how the tax would be computed, Pepsi and Coca-Cola met with government officials to discuss the exact formula to be used. The two companies signed a Memorandum of Understanding laying out the details, and the head of the Sales Tax Authority and the Minister of Finance are expected to sign it for the GOE within a few days, according to Kabil and El Dessouky.

2. (SBU) Kabil said that after all allowable deductions, the effective rate of taxation on Pepsi's soft drinks would be around 15 to 18 percent. Post expects the effective rate will be the same for Coca-Cola, though El Dessouky declined to comment on Coke's effective rate until she has had a chance herself to run all the numbers under the new formula. El Dessouky promised to provide us with the rate once it is computed.

3. (SBU) Kabil praised the embassy for its efforts over the years to reduce the tax on soft drinks. He expressed relief that the issue was finally resolved, and surprise -- given the GOE's foot-dragging on this issue -- that the tax amendment had passed so quickly after being introduced. He credited its quick passage in part to Minister of Foreign Trade and Investment Rachid, whom he lauded for taking ownership of this issue. Based on the positive comments of El Dessouky and Kabil, we expect no more requests from these companies on the taxation issue.

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GRAY